NOTES

WASHINGTON NOTES

REPORT OF THE SECRETARY OF THE TREASURY

A chapter of American financial history vastly greater in historical significance than is found in most departmental documents has been furnished to the public in Secretary of the Treasury McAdoo's annual report to Congress issued at the close of December, 1914. The report reviews some of the phases of the financial situation resulting from the European war with special reference to their governmental bearing. Particular emphasis is placed upon the fact that the impulse to relieve the strained conditions came first and primarily from the Administration and was afforded in no small degree through the activities of the Treasury Department. As clearly appears from the showing made, these duties were so actively undertaken and prosecuted that the leadership in nearly all of the various lines of progress fell to the Treasury and its chief. The clearing-houses of the country had undertaken the issue of certificates, but issues of emergency currency were so freely supplied from the Department that the clearing-house issues were practically unnecessary. So also when the foreign exchange problem became pressing the Treasury Department, acting with the Federal Reserve Board, gained the assistance of leading bankers and secured subscriptions to the gold exchange fund the machinery of which was promptly put into operation. The Department is also entitled to credit for its inauguration of the war-risk insurance system, a measure of considerable influence in removing the obstacles to foreign trade that had resulted from the war. The cotton loan fund, intended to improve the position of the southern planter, is another form of co-operative financial effort engineered from Washington, whose operations, whatever they may be, are due largely to Treasury leadership.

There is much valuable historical and legislative detail in this report to which reference will inevitably be made by financial historians in the future. Particular value is to be attached to the authoritative reprints of the gold-exchange correspondence, the cotton loan-fund plan, the amendments to the Federal Reserve act, the text of the war-risk insurance measure, and to other authoritative documents either not found elsewhere or, if found, available only at the expense of much trouble and inconvenience. The report has the unusual quality of personality,

impressing the reader with the feeling that it affords a consistent and harmonious account of operations which have been conducted under definite leadership and with a positive purpose in mind. This decidedly differentiates the document from the rank and file of departmental reports which frequently appear to be merely a grouping of statements regarding the work of unrelated bureaus.

REPORT OF THE COMPTROLLER OF THE CURRENCY

With the Treasury Department's annual report thus outlined should be considered the corresponding report of the Comptroller of the Currency sent to Congress on December 29. Comptroller Williams has of course not so broad an opportunity as his chief, either for activity or for expression, but he furnishes an extremely useful contribution to the financial history of the latter half of 1914. It is clearly shown how, under the stress of the panic which followed the outbreak of war, the national banking system practically repeated the breakdown of 1907 and similar occurrences in preceding years. The more effective means of supplying currency provided by Congress in the amendment to the Federal Reserve act under date of August 14 enabled the present Bureau of Currency to do better work than was possible for its predecessors under like conditions and to deliver the notes much more promptly and in full quantity at the points where they were most needed. From the reference standpoint, the report is a particularly good one, since it supplies full data not before available concerning points of interest in the chief financial markets as well as concerning changes in bank reserves. The general information and the statistics relating to bank reserves will afford invaluable data to the student of the national banking system, especially in view of the change in national reserve requirements which took effect on November 16, when the federal reserve banks were opened. There will undoubtedly be much difference of opinion regarding the computations of reserve held and reserve released which are furnished by the Comptroller, but he, at all events, supplies the materials for a thorough study of reserve conditions as affected by the new banking system. These materials will enable future students of the subject to trace changes and currents in the finance and banking of 1914 that are now obscure. There is also given for the first time, in this report, a complete official account of the organization of the federal reserve banks and of their personnel. This anticipated the report later made by the Federal Reserve Board itself. The Comptroller's report as a review of banking conditions in general is probably more complete in certain respects

than the Board's own report can be, owing to the peculiar position of the Comptroller as the chief administrative officer of the national banking system as a whole, and the special access to information he thereby possesses.

REPORT OF THE FEDERAL RESERVE BOARD

The Federal Reserve Board made public on January 27 its first report to the Speaker of the House of Representatives as required under the provisions of sec. 10 of the Federal Reserve act. It is a lengthy document consisting of a comparatively short statement constituting the text of the report proper, followed by a series of appendixes giving in great detail the facts about the various activities of the organization. Included in these appendixes are statements furnishing the names of the directors of the several banks, the salaries paid to executive officers, the circulars and regulations issued by the Board itself, opinions of the Attorney-General with reference to the status of the Board, the cotton-loan and gold-fund plans, and a variety of other data. Taken with the reports of the Secretary of the Treasury and of the Comptroller of the Currency, this document is probably one of the most convenient collections of material with reference to current conditions in banking that has been made available within recent months.

The text of the report presents a brief discussion of the events of the past summer and autumn, outlining consecutively the gold-fund plan, the origin and history of the cotton-loan plan, the difficulties surrounding the opening of the new reserve banks, and the various problems which the banks have had to meet since they opened for business. The chief problems directly mentioned are the establishment of a uniform discount policy, the securing of the reserves in cash, and the formulation or regulations governing the business at the institutions. It is indicated that the Board feels that the payment of the reserves and the establishment of the general working conditions throughout the system have been satisfactorily accomplished, and that the outlining and determining of the actual business of the institutions are yet to be effected. It is noted that up to date a stringent policy has been followed with a view to conserving the resources of the banks and preventing them from dissipating their strength by making loans intended to finance business operations whose purpose is simply the enlargement of the profit-making activities of the community. One of the features of the report which is likely to receive most attention is that in which the Board discusses the function of a reserve bank. It is pointed out that two opposing conceptions of the

functions of these banks have been developed since the institutions were opened: the one viewing them as emergency organizations whose function it probably is to be inactive in ordinary times, simply awaiting the call for the active exertion of their strength; the other contending that they are institutions intended to bid down the rate of interest at the several banks and to antagonize the operations of the larger member banks of the federal reserve system. The Board does not indorse either of these opinions, but seems to hold to the view that the true function of the new banks is intermediate between the extremes thus represented. It asserts that the banks can do a volume of business great enough to make themselves felt in the market as an active force and of course to provide for their expenses and the return on capital stock, but that it is neither necessary nor desirable for them to go farther than this and to attempt to develop a large volume of operations. To do so, it is suggested, would simply render their funds unavailable at times when difficult conditions have made themselves felt, and thus would prevent them from applying the remedy which the nature of their organization was intended to furnish. It is probable that this definition of the functions of the reserve banks is not absolutely final, but that experience will have to demonstrate more fully and in greater detail the exact way in which the new banks are to operate at ordinary times.

The report is unusually complete in furnishing all details of the expenses of the Federal Reserve Board itself and of its organization, making it plain that the Board is to be conducted on a basis of entire publicity and affording the institutions which furnish the money for its operations complete information of what has been done in the premises.

NEW DEFINITION OF COMMERCIAL PAPER

Since the issuance of its annual report the Federal Reserve Board has taken another important step in regard to the definition of commercial paper, by sending out a circular intended to act as a substitute for *Circular No. 13*, issued by the Board some time ago. The original circular furnished a complete outline of the procedure to be followed by federal reserve banks in determining whether or not paper was eligible for rediscount when presented by member banks. The principal requirements then established were that the paper should be self-liquidating, that the maturities should be well distributed, and that loans should be short-time and non-renewable. Accompanying these general requirements were others, practically calling for statements of condition on the part of firms and corporations making applications for loans. Such

statements would have necessitated the filing of profit-and-loss sheets and a variety of other data. Experience has shown that most firms are unwilling to comply with such requirements and to this fact is attributed by some the limited volume of business which has been done by the federal reserve banks. The new circular and the regulations accompanying it materially reduce the stringency of the requirements which it was at first sought to establish; in addition they discriminate in favor of the smaller and country banks whose customers are not in the habit of keeping satisfactory accounts, since it is provided with reference to loans of less than five thousand dollars that the information to be furnished need be very much less complete. The new regulations state what is essential in eligible paper substantially as follows:

a) That it must be a bill the proceeds of which have been used or are to be used in producing, purchasing, carrying, or marketing goods in one or more of the steps of the process of production, manufacture, and distribution:

b) That no bill is "eligible" the proceeds of which have been used or are to be used:

(1) For permanent or fixed investments of any kind, such as land, buildings, machinery (including therein additions, alterations, or other permanent improvements, except such as are properly to be regarded as costs of operation). It may be considered as sufficient evidence of compliance with this requirement if the borrower shows, by statement or otherwise, that he has a reasonable excess of quick assets over his current liabilities on open accounts, short-term notes, or otherwise;

(2) For investments of a merely speculative character, whether made in goods or otherwise.

The Federal Reserve Board has adopted the following method by which member banks shall certify that a bill is eligible for rediscount when applying for rediscount thereof:

Member banks shall certify in their letters of application for rediscount whether the paper offered for rediscount is depositor's or purchased paper, or paper rediscounted for other member banks, and whether statements are on file. When it does not appear that such statements are on file, except as hereinafter provided under (1), (2), and (3) below, the federal reserve bank shall satisfy itself as to the eligibility of the paper offered for rediscount, and member banks will be expected to use such statement forms, identifying stamps, etc., as may be prescribed by the respective federal reserve banks.

Any member bank rediscounting with a federal reserve bank paper acquired from another member bank, with the indorsement of such member

bank, may accept such member's certification regarding the character of the paper and the existence of the necessary statements.

Statements of the borrower's financial condition may be waived where bills offered for rediscount have been discounted by member banks for any of their depositors in the following cases:

(1) If the bill bears the signatures of the purchaser and the seller of the goods and presents prima facie evidence that it was issued for goods actually purchased or sold; or

(2) If the aggregate amount of obligations of such depositor actually rediscounted and offered for rediscount does not exceed $5,000, but in no event a sum in excess of 10 per centum of the paid-in capital of the member bank; or

(3) If the bill be specifically secured by approved warehouse receipts covering readily marketable staples:

Provided, however, That the bank shall certify to these conditions on the application blank in a manner to be designated by the respective federal reserve banks.

WORKMEN'S COMPENSATION STATISTICS—A COMMENT ON THE USE OF TERMS

In a recent article in this *Journal* (XXII, 957), the writer misrepresented the treatment of accident cause by Mr. Fred C. Croxton, chief statistician of the Industrial Commission of Ohio. The statement in the article was based upon a conversation with Mr. Croxton. It appears from further conversation and correspondence that Mr. Croxton's term "primary cause" connotes substantially what the writer means by "proximate cause." Specifically, in each of the three illustrations mentioned, Mr. Croxton's assignment of causes is the same as the writer's. The difference is mainly a matter of terminology. Unfortunately the misunderstanding was not cleared up in time for correction of the original article. This opportunity to correct the above misstatement is very gladly embraced.

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